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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000748

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TREASURY FOR RJARPE
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E.O. 12958: DECL: 06/12/2019
TAGS: EPET EFIN VE
SUBJECT: PDVSA'S 2008 FINANCIAL STATEMENTS: SHINING A DIM
LIGHT ON A TROUBLED COMPANY

REF: A. CARACAS 564
¶B. 2008 CARACAS 276

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

¶1. (C) Summary: PDVSA's recently issued audited financial statements for 2008 do nothing to refute the belief that PDVSA is suffering a cash flow crisis given inefficient management, increased political commitments, and faltering production (ref A). Given the difficulty interpreting the statements and important contradictions between the statements and other numbers reported by PDVSA, however, the statements leave analysts with as many questions as answers. End summary.

¶2. (SBU) PDVSA released audited consolidated financial statements for 2008 to its website the weekend of June 5-7. In past years, PDVSA generally released these statements by the end of April; one rumored reason for delay this year was a disagreement between PDVSA and its auditors over dividends owed to PDVSA's partners in joint ventures. As the statements usually do not differentiate between PDVSA's operations in Venezuela and its CITGO subsidiary in the U.S., it is difficult to isolate PDVSA's operations in Venezuela.

¶3. (SBU) Below are some of the highlights of, and questions raised by, the auditors' 160-page report.

--Per the report, PDVSA's sales from crude and products reached USD 125 billion. Of this amount, USD 68 billion of sales "originated in Venezuela," presumably corresponding to PDVSA's export and domestic sales (though it may not include sales of crude that pass through offshore PDVSA refineries).

--The auditors say PDVSA and the Ministry of Energy and Petroleum reported national crude production of 3.26 million barrels per day (mbd), crude exports of 2.2 mbd, and product exports of 0.66 mbd.

--Support for social programs and Fonden (the National Development Fund) reached USD 2.3 and 12.4 billion respectively, with the latter figure including the windfall profits contribution.

--Operational costs rose 50 percent, from USD 15 billion in 2007 to USD 22.4 billion in 2008. Reasons for this dramatic increase are unclear.

--PDVSA paid USD 23.4 billion in royalties and taxes (excluding income tax) in 2008. In PDVSA's unaudited financial report as of September 30, 2008, however, this same line item was at USD 27.6 billion for the first nine months of the year.

--Profits before income tax rose from USD 11.2 billion in 2007 to USD 13.6 billion in 2008. As the amount paid in income tax fell from USD 5 billion to USD 4.3 billion, net profits rose from USD 6.2 billion to USD 9.4 billion. "Deferred" income tax payments rose from USD 1.2 billion in 2007 to USD 3.8 billion in 2008.

--Cash flow was positive, with cash increasing from USD 3.3 billion to USD 4.5 billion over the year. However, this increase included USD 5 billion in "funds received from the shareholder" (i.e., the government). The nature of these funds is unclear.

--Accounts payable to providers grew from USD 3.1 billion to USD 7.5 billion. In PDVSA's unaudited financial report as of September 30, 2008, however, this same line item was at USD 7.8 billion (and the year-end 2007 figure was given as USD 5.6 billion, not USD 3.1 billion). Given PDVSA's failure to make payments to the majority of service companies in the last quarter of 2008, it is hard to believe it would have dropped. Media reports speculate PDVSA's accounts payable currently exceed USD 13 billion.

--Accounts receivable ("documentos y cuentas por cobrar") dropped from USD 11.2 billion to USD 10.8 billion. In

PDVSA's unaudited financial report as of September 30, 2008, however, this same line item was at USD 22 billion. Furthermore, the Central Bank's 2008 balance of payments showed a deficit of USD 7.4 billion in the line item we expect would contain PDVSA's accounts receivable (commercial credits, under public sector, assets, other investment in the capital account). Accounts receivable should include Petrocaribe financing, which on balance we expect would have expanded during 2008.

--Sales of food and other consumables, presumably through PDVSA subsidiary PDVAL, reached USD 1 billion.

--Overall debt fell slightly, from USD 13.6 billion to USD 13.4 billion. PDVSA paid a USD 1.1 billion line of credit from BNP-Paribas-led consortium in December 2008 and received a USD 1.2 billion loan from two state banks.

¶4. (C) Comment: PDVSA's finances, as noted previously (ref B) and as suggested in some of the questions and contradictions noted above, are a black box. The auditors' report is useful in that it gives analysts a starting point. Some data points indicate potential cash flow problems, such as the increase in accounts payable to providers and the USD 5 billion in "funds received" from the government. PDVSA's inefficiency (from a business standpoint) and its increasing focus on political priorities are suggested by the rise in operational costs (which could also include social or political spending) and the USD 1 billion in PDVAL sales. The figures presented in the report suggest PDVSA's production is less than what PDVSA says it is, as crude and product exports of 2.8 mbd should have brought revenue of USD 89 billion at PDVSA's stated average basket price (USD 87 per barrel), far more than the USD 68 billion mentioned above. (Revenue of USD 68 billion at USD 87 per barrel would indicate exports of 2.1 mbd.) In sum, the auditor's report does not refute the financial picture we have previously presented of PDVSA, but unfortunately the light it shines is none too precise. Or, as post contact and blogger Miguel Octavio put it, welcome to the Magical Mystery Tour. End comment.
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